

DG 05-048

NORTHERN UTILITIES, INC. – PELHAM DIVISION

2005 Summer Cost of Gas

Order Approving Cost of Gas Rate

ORDER NO. 24,461

April 29, 2005

APPEARANCES: Seth L. Shortlidge, Esq., of Gallagher, Callahan and Gartrell, on behalf of Northern Utilities, Inc.; and Edward N. Damon, Esq., for the Staff of the New Hampshire Public Utilities Commission

I. PROCEDURAL HISTORY

On March 15, 2005, Northern Utilities, Inc. – Pelham Division (Northern or the Company), a utility providing propane service to 18 commercial customers located in Pelham, New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) filing for the period May 1, 2005 through October 31, 2005. The filing was accompanied by the direct testimony of Joseph A. Ferro, Manager of Regulatory Policy, and supporting attachments.

An Order of Notice was issued on March 17, 2005 and a duly noticed hearing on the merits was held at the Commission on April 12, 2005. There were no intervenors in this docket.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

Northern's witness Joseph A. Ferro addressed the following issues: 1) calculation of the COG rate and the impact on customer bills; 2) factors contributing to the increased rate; and 3) plans to sell the system with minimal impact on the existing customers.

1. Calculation and Rate Impact

The proposed 2005 Summer Season COG rate of \$1.1136 per therm was calculated by increasing the anticipated cost of gas of \$17,976 by the prior period under-collection of \$1,510 and related interest of \$59 and dividing the resulting anticipated costs of \$19,545 by projected therm sales of 17,551. Northern's proposed 2005 Summer Season COG rate of \$1.1136 per therm represents an increase of \$0.1428 per therm from the 2004 average weighted Summer Season COG rate of \$0.9708 per therm. Under the proposed rate, a typical Pelham customer using 273 therms will pay a total gas bill of \$501 for the summer of 2005 compared to a total gas bill of \$468 for the 2004 summer period, an increase of \$34 or 7.18%.

2. Factors Contributing to the Increased COG Rate

Northern testified that the increase in the proposed COG rate as compared to last summer's rate can be primarily attributed to higher forecasted propane prices as compared to last summer's average actual propane prices.

3. Plans to Sell the Pelham System

In *Northern Utilities, Inc.*, Order No. 23,958, 87 NHPUC 269 (April 30, 2002), approving the Northern – Pelham Division 2002 Summer Cost of Gas, the Commission directed the Company to work toward developing a plan to allow for service to the Pelham propane system which would no longer be subject to Commission regulation. The directive came about as a result of the recognition by Staff and Northern that natural gas service cannot be economically provided to Pelham and that the existing propane service was not intended to be subject to Commission regulation indefinitely.

Mr. Ferro testified that Northern had contacted the owner of the Pelham Plaza Corporation (PPC) notifying him of Northern's intent to discontinue regulated service and

offering to sell the propane equipment serving the Plaza to the owner. The PPC expressed its interest and requested pertinent information on the system, which Northern provided.

Ultimately, the PPC decided not to purchase the system, but requested to be kept advised of Northern's future plans for the Plaza operations.

In *Northern Utilities, Inc.*, Order No. 24,391 (October 29, 2004), the Commission directed Staff to convene a meeting of interested parties regarding the further operations of the Pelham Division, including the sale of the Pelham Division to an unregulated third party, the continued operation of the Pelham Division facilities by Northern on an unregulated basis and the continued operation of the Pelham Division on a regulated basis. The Commission expressed its hope that a plan of future operation could be resolved by the time the 2005 Summer Season COG was filed with the Commission. Northern was directed to notify all Pelham Division customers of the Commission's Order. *See slip op.* at 4-5.

On December 17, 2004, Northern invited all 18 Pelham customers and eight propane dealers to meet with Northern and Staff in Pelham to discuss the sale of the Pelham facilities. Two propane dealers, and no customers, attended. Based upon that meeting, it appeared that the propane dealers would be interested in continuing service to the Pelham customers and at a price that would be similar to what Northern charges. Since that time, Northern has compiled asset information and prepared a draft request for bids on the facilities, which was submitted to Staff for review. It is Northern's intent to send the request for bids to interested propane suppliers by the end of April.

Northern plans on further communications with the 18 Pelham customers regarding the steps being taken to sell the facilities and eventually remove them from regulated propane service. Further, Northern expects to make a formal filing with the Commission

regarding its divestiture of the Pelham system and will seek Staff's direction as to what should be addressed in that filing.

B. Staff

Staff stated that it had reviewed the filing and recommended approval of the proposed COG rate, noting that the demand and supply planning is consistent with what has been filed in previous years and approved by the Commission. Staff stated that the Commission Audit Staff had issued a Final Audit Report on its review of the Northern 2004 Summer Season reconciliation and found the reconciliation to have been accurately reported. Staff noted that customers are protected by the COG reconciliation, through which actual gas costs and revenues are reconciled and reviewed in the subsequent COG period. Staff further stated it had reviewed Northern's draft request for bids for the Pelham facilities and supported Northern's issuance of the bid to interested parties at the earliest possible date.

III. COMMISSION ANALYSIS

After careful review of the record in this docket, we find that Northern's revised Summer Season COG will result in just and reasonable rates pursuant to RSA 378:7. Accordingly, we approve Northern's proposed 2005 Summer Season COG rate.

We also find Northern's proposed plan on how to resolve the issue of discontinuing regulated propane service to the Pelham Plaza to be reasonable. Accordingly, we direct Northern to issue a request for bids for the purchase of the Pelham facilities, to keep the Pelham customers and PPC informed as to the status of the potential sale and to continue working with Staff on how best to divest itself of those facilities and meet applicable requirements regarding the sale of those assets and the discontinuation of regulated service.

Based upon the foregoing, it is hereby

ORDERED, Northern Utilities, Inc. - Pelham Division's proposed Summer Season COG rate of \$1.1136 per therm for the period May 1, 2005 through October 31, 2005, is **APPROVED**, effective for service rendered on or after May 1, 2005; and it is

FURTHER ORDERED, that Northern may, without further Commission action, adjust the approved COG rate upward or downward monthly based on Northern's calculation of the projected over- or under-collection for the period, but the cumulative adjustments shall not exceed twenty percent (20%) of the approved unit cost of gas; and it is

FURTHER ORDERED, that Northern will provide the Commission with its monthly calculation of the projected over- or under-calculation, along with the resulting revised COG rate for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. Northern shall include a revised tariff page 40 - Calculation of Cost of Gas and revised rate schedules if Northern elects to adjust the COG rate; and it is

FURTHER ORDERED, that the over- or under-collection shall accrue interest at the Prime Rate reported in the *Wall Street Journal*. The rate is to be adjusted each quarter using the rate reported on the first date of the month preceding the first month of the quarter; and it is

FURTHER ORDERED, that Northern shall file properly annotated tariff pages in compliance with this Order no later than fifteen (15) days from the issuance date of this Order, as required by N.H. Code Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth
day of April, 2005.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Michael D. Harrington
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary